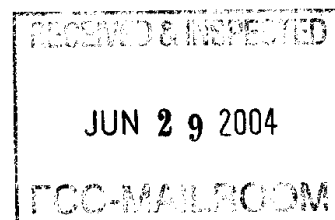


Before the  
Federal Communications Commission  
Washington, D.C. 20554



In the Matter of

Federal-State Joint Board on  
Universal Service

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CC Docket No. 96-45

# ORDER

Adopted: June 2, 2004

Released: June 28, 2004

By the Commission: Commissioners Martin and Adelstein issuing separate statements.

## I. INTRODUCTION

1. In this Order, we ask the Federal-State Joint Board on Universal Service (Joint Board) to review the Commission's rules relating to the high-cost universal service support mechanisms for rural carriers and to determine the appropriate rural mechanism to succeed the five-year plan adopted in the *Rural Task Force Order*.<sup>1</sup> In particular, we ask the Joint Board to make recommendations to the Commission on a long-term universal service plan that ensures that support is specific, predictable, and sufficient to preserve and advance universal service. We ask the Joint Board to ensure that its recommendations are consistent with the goal of ensuring that consumers in rural, insular, and high-cost areas have access to telecommunications and information services at rates that are affordable and reasonably comparable to rates charged for similar services in urban areas. We also ask the Joint Board to consider how support can be effectively targeted to rural telephone companies serving the highest cost areas, while protecting against excessive fund growth. In conducting its review, the Joint Board should take into account the significant distinctions among rural carriers, and between rural and non-rural carriers.<sup>2</sup> We expect that the Joint Board will consider all options for determining appropriate support

<sup>1</sup>*Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Fourteenth Report and Order and Twenty-Second Order on Reconsideration, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, Report and Order, 16 FCC Rcd 11244 (2001) (*RTF Order*). We also note that the Joint Board recently reviewed related issues concerning the portability of universal service support and the designation of competitive eligible telecommunications carriers. See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision, 19 FCC Rcd 4257 (2004).

<sup>2</sup>Based on a Joint Board recommendation, in 1997 the Commission adopted, for universal service purposes, a definition of rural carrier that mirrored the definition of "rural telephone company" found in section 153 of the Act. *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8943-44, para. 310 (1997) (*Universal Service First Report and Order*). Pursuant to this definition, a rural telephone company is a local exchange carrier operating entity to the extent that the entity:

- (1) Provides common carrier service to any local exchange carrier study area that does not include either:

- (i) Any incorporated place of 10,000 inhabitants or more, or any part thereof, based on the most recently available population statistics of the Bureau of the Census; or

(continued....)

levels for rural carriers. We anticipate that the Joint Board will seek public comment on the issues described below.

## II. BACKGROUND

2. The Telecommunications Act of 1996 (1996 Act)<sup>3</sup> codified the Commission's historical commitment to promote universal service to ensure that all Americans have access to affordable, quality telecommunications services.<sup>4</sup> When the 1996 Act was adopted, universal service was achieved both through explicit monetary payments and implicit support flows to enable carriers to serve high-cost areas at below-cost rates.<sup>5</sup> In section 254 of the Communications Act of 1934 (Act), as amended by the 1996 Act, Congress instructed the Commission, after consultation with the Joint Board, to establish specific, predictable, and sufficient support mechanisms to preserve and advance universal service.<sup>6</sup> In addition, Congress articulated a national goal that consumers in all regions of the nation, including rural, insular, and high-cost areas, should have access to telecommunications and information services at rates that are reasonably comparable to rates charged for similar services in urban areas.<sup>7</sup>

3. In implementing the universal service provisions of the Act, the Joint Board and the Commission have consistently recognized that rural carriers face diverse circumstances and that "one size does not fit all" in considering universal service support mechanisms for them. When the Commission determined, in the *Universal Service First Report and Order*, that high-cost universal service support should be based on the forward-looking economic cost of constructing and operating the network facilities and functions used to provide the supported services, it also determined that rural carriers should gradually shift to a forward-looking economic cost methodology.<sup>8</sup> In reaching this (Continued from previous page)

- (ii) Any territory, incorporated or unincorporated, included in an urbanized area, as defined by the Bureau of the Census as of August 10, 1993;
- (2) Provides telephone exchange service, including exchange access, to fewer than 50,000 access lines;
- (3) Provides telephone exchange service to any local exchange carrier study area with fewer than 100,000 access lines; or
- (4) Has less than 15 percent of its access lines in communities of more than 50,000 on February 8, 1996.

47 C.F.R. § 54.5 (definition of "rural telephone company" referring to 47 C.F.R. § 51.5). There is no statutory requirement, however, that the Commission use this definition for universal service purposes. *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, CC Docket No. 97-160, Tenth Report and Order, 14 FCC Rcd 10156, 20358, para. 458 (1999) (*Tenth Report and Order*).

<sup>3</sup>Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (1996 Act). The 1996 Act amended the Communications Act of 1934 (Act). 47 U.S.C. §§ 151 *et seq.*

<sup>4</sup>47 U.S.C. § 254.

<sup>5</sup>*Universal Service First Report and Order*, 12 FCC Rcd at 8784-85, paras. 10-12.

<sup>6</sup>47 U.S.C. § 254.

<sup>7</sup>47 U.S.C. § 254(b)(3).

<sup>8</sup>*Universal Service First Report and Order*, 12 FCC Rcd at 8899, para. 224, 8936, para. 294. The Commission found that providing support based on forward-looking economic cost estimates, rather than embedded costs, would (continued....)

conclusion, the Commission recognized, consistent with the Joint Board's recommendation, that, compared to the large non-rural carriers, rural carriers generally serve fewer subscribers, serve more sparsely populated areas, and generally do not benefit as much from economies of scale and scope.<sup>9</sup> Further, for many rural carriers, universal service support provides a large share of the carriers' revenues, and thus, any sudden change in the support mechanisms may disproportionately affect rural carriers' operations.<sup>10</sup> The Commission therefore decided to provide rural carriers with time to adjust to any change in the support mechanism. In the interim, rural telephone companies would receive loop support based on a modified version of the existing high-cost support mechanism.<sup>11</sup> The Commission also retained, with minor changes, the existing local switching support (LSS) mechanism, which provides high-cost support for switching costs to rural carriers with fewer than 50,000 access lines.<sup>12</sup>

4. Recognizing that additional effort would be needed to develop a forward-looking mechanism appropriate for rural telephone companies, the Commission encouraged the Joint Board to establish a task force representing a broad range of interests to consider these issues.<sup>13</sup> The Joint Board established the Rural Task Force (RTF), which was comprised of individuals representing rural telephone companies, competitive local exchange carriers, interexchange carriers, wireless providers, consumer advocates, and state and federal agencies, to identify the issues unique to rural carriers and assess the appropriateness of cost models for rural carriers.<sup>14</sup> After considerable effort and extensive deliberations, the RTF submitted a recommendation to the Joint Board on September 29, 2000.<sup>15</sup> Rather than

(Continued from previous page)

send the correct signals for entry, investment, and innovation. The Commission adopted a support methodology based on forward-looking economic costs for non-rural carriers in the *Ninth Report and Order*. *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Ninth Report and Order and Eighteenth Order on Reconsideration, 14 FCC Rcd 20432 (1999) (*Ninth Report and Order*), remanded, *Qwest Corp. v. FCC*, 258 F.3d 1191 (10th Cir. 2001) (*Qwest*); *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision, 17 FCC Rcd 20716 (2002). The United States Court of Appeals for the Tenth Circuit remanded the methodology to the Commission for further consideration. *Qwest*, 258 F.3d 1191. Based on a recommendation from the Joint Board, the Commission recently issued an order affirming the methodology with some modifications. *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order on Remand, 18 FCC Rcd 22559 (2003) (*Remand Order*), appeal pending sub nom. *Qwest Communications International Inc. v. FCC & USA*, Tenth Cir. No. 03-9617; *Vermont Public Service Board v. FCC & USA*, D.C. Cir. No. 04-1015; and *SBC Communications Inc. v. FCC & USA*, D.C. Cir. No. 04-1018.

<sup>9</sup>*Universal Service First Report and Order*, 12 FCC Rcd at 8936, para. 294.

<sup>10</sup>*Id.*

<sup>11</sup>*Id.* at 8939-40, paras. 300-02. Specifically, the Commission adopted an indexed cap on high-cost loop support to be implemented beginning January 1, 2000. *Id.* The Commission also removed recovery of funds for high-cost loop support from the interstate access rate structure. See *id.* at 9197-203, paras. 824-36.

<sup>12</sup>*Id.* at 8940-42, paras. 303-04; *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Fourth Order on Reconsideration, *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charge*, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, Report and Order, 13 FCC Rcd 5318, 5343-45, paras. 40-41 (1998).

<sup>13</sup>*Universal Service First Report and Order*, 12 FCC Rcd at 8917, para. 253.

<sup>14</sup>*RTF Order*, 16 FCC Rcd at 11247, para. 5.

<sup>15</sup>*Id.* at 11247-48, para. 6.

attempting to modify the Commission's forward-looking economic cost mechanism used to determine non-rural support, the RTF proposed modifications to the embedded cost system for a five-year period. The Joint Board recommended that the Commission adopt the interim RTF plan.<sup>16</sup>

5. In the *RTF Order*, the Commission adopted the Joint Board's recommendation with minor modifications.<sup>17</sup> The order took steps to rebase and modify the high-cost support mechanism during the plan's five-year life, providing rural carriers with certainty and stability and enabling them to continue to provide supported services at affordable rates to consumers. Among other reforms, the Commission modified section 54.305 of the Commission's rules, which governs support for sold or transferred exchanges, to create a "safety valve" mechanism that provides support for additional investment made in acquired exchanges.<sup>18</sup> The Commission also adopted a "safety net additive," which provides additional support to rural carriers that make significant new investment in infrastructure.<sup>19</sup>

6. The Commission found that the five-year duration of the RTF plan would permit the Commission and the Joint Board to consider the appropriate rural mechanism to succeed the plan and devote sufficient time to the task prior to the termination of that plan.<sup>20</sup> The Commission stated that "in developing a long-term universal service plan that better targets support to the highest cost rural areas, we intend to consider all options, including the use of forward-looking costs, to determine appropriate support levels for both rural and non-rural carriers."<sup>21</sup> The Commission further indicated that, although it believed that distinct rural and non-rural mechanisms were appropriate at that time, two distinct mechanisms might not be viable in the long term.<sup>22</sup>

### III. DISCUSSION

7. On June 30, 2006, the *RTF Order* will have been in place for five years. It therefore is time to undertake a review of what measures should succeed the RTF plan and, more generally, how the rural and non-rural high-cost support mechanisms function together. Fundamental changes are occurring in the industry, necessitating a thorough review of how to preserve and advance universal service. We are committed to maintaining predictable and sufficient universal service support in this dynamic marketplace.

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<sup>16</sup>*Id.* at 11248, para. 7.

<sup>17</sup>*See id.* at 11249-51, para. 12.

<sup>18</sup>47 C.F.R. § 54.305; *RTF Order*, 16 FCC Rcd at 11284-93, paras. 97-119. Section 54.305 provides generally that a carrier acquiring exchanges from an unaffiliated carrier shall receive the same per-line levels of high-cost support for which the acquired exchanges were eligible prior to the transfer. *See id.* at 11281, para. 91. The safety valve mechanism provides additional support to rural carriers that make investments in the infrastructure of recently acquired exchanges. *Id.* at 11284-85, para. 98.

<sup>19</sup>*Id.* at 11277-81, paras. 79-90.

<sup>20</sup>*Id.* at 11310, para. 168. The Commission indicated that it would consult with the Joint Board before allowing the plan to remain in effect beyond the expiration date. *Id.* at 11309-10, para. 167.

<sup>21</sup>*Id.* at 11310, para. 170.

<sup>22</sup>*Id.*

8. We ask the Joint Board to consider what form of universal service support for rural telephone companies serves the goals of the Act most efficiently and effectively. Specifically, we ask the Joint Board to consider whether a universal service mechanism for rural carriers based on forward-looking economic cost estimates or embedded costs would most efficiently and effectively achieve the Act's goals. In making its recommendations, the Joint Board should consider which mechanism would best ensure that services in rural areas, including both the quality and the rates for those services, are reasonably comparable to services available in urban areas. Moreover, the Joint Board should consider both the benefits of maintaining distinct support mechanisms for rural and non-rural carriers and the extent to which this creates administrative burdens, incentives for arbitrage, or other inefficiencies.<sup>23</sup> In the event that the Joint Board recommends retaining a separate support mechanism for rural carriers, we ask the Joint Board to consider how to ensure that the distinct mechanisms for rural and non-rural carriers operate efficiently and in a coordinated fashion.

9. If the Joint Board recommends that rural carriers should move to a support mechanism based on forward-looking costs, we ask the Joint Board to provide recommendations on how that goal should be achieved. The Joint Board should consider whether the current forward-looking economic cost model, used in calculating high-cost support for non-rural telephone companies, is appropriate for some or all rural telephone companies, or if some other method for estimating forward-looking economic costs would be better suited for some or all rural telephone companies.<sup>24</sup> The Joint Board should also consider whether the current model could be made more effective for rural telephone companies by using different inputs than are currently used for non-rural telephone companies.<sup>25</sup> The Joint Board should consider implementation issues related to any modified mechanism that it recommends, including whether it would be appropriate for rural telephone companies to begin receiving high-cost support based on forward-looking economic costs immediately upon expiration of the plan adopted in the *RTF Order* or if some further transitional stages would be beneficial.

10. If the Joint Board recommends maintaining an embedded cost mechanism for rural carriers, the Joint Board should consider whether modifications to the current high-cost loop support mechanism and LSS would better serve the Act's goals. For example, the Joint Board should consider whether using average annual line counts rather than year-end line counts would provide rural carriers with a more appropriate level of high-cost loop support.<sup>26</sup> We request that the Joint Board consider whether high-cost loop support can be more effectively targeted to the highest-cost rural carriers. We

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<sup>23</sup>For example, using distinct support mechanisms requires a regulatory process for determining whether carriers are rural or non-rural. See *Universal Service First Report and Order*, 12 FCC Rcd at 8943-44, para. 310 (self-certification by rural carriers). Distinct support mechanisms may also discourage consolidation among carriers that would provide economies of scale, if the combined carrier would receive less support than the separate smaller carriers currently receive.

<sup>24</sup>We note that the RTF examined the use of the forward-looking economic cost model for rural telephone companies. See *RTF Order*, 16 FCC Rcd at 11311-13, paras. 174-76 (discussing, in particular, A Review of the FCC's Non-Rural Universal Service Fund Method and the Synthesis Model for Rural Telephone Companies: Rural Task Force White Paper 4 (September 2000) <[www.wutc.wa.gov/rtf](http://www.wutc.wa.gov/rtf)>).

<sup>25</sup>*Id.* at 11312-13, para. 175 & n.412. The Commission also recently noted that a forward-looking economic cost methodology that relies on statewide cost estimates may not be appropriate for rural carriers. *Remand Order*, 18 FCC Rcd at 22573-74, para. 25.

<sup>26</sup>47 C.F.R. § 36.611(h).

also note that LSS currently targets support to study areas with fewer than 50,000 access lines without regard to whether those study areas experience high switching costs. The Joint Board should consider if another methodology would better target support to areas with high switching costs. The Joint Board should also consider whether there is a continued need to maintain separate loop and switching support mechanisms, and whether support calculations for rural carriers can be simplified in any fashion.<sup>27</sup>

11. In conjunction with considering whether maintaining a different support mechanism for rural carriers best serves the goals of the Act, we ask the Joint Board to consider whether to modify the definition of "rural telephone company."<sup>28</sup> As noted above, we recognize the great diversity among rural telephone companies. This diversity may suggest that not all rural telephone companies have similar support requirements.<sup>29</sup> Recognizing the great diversity among rural telephone companies, we ask the Joint Board to consider whether support based on some form of forward-looking economic costs would be appropriate for some subset of rural telephone companies. For example, the Joint Board should consider whether it would be appropriate to use forward-looking economic cost estimates to determine high-cost support for rural telephone companies with more than 50,000 lines in a state, while smaller rural telephone companies would continue to use embedded costs on an interim or permanent basis. The Joint Board should consider whether a modified definitional framework that permits finer distinctions among carriers of different sizes or characteristics would be useful. We also ask the Joint Board to consider the relevance of the fact that many rural telephone companies are, in fact, the operating subsidiaries of larger holding companies, which may provide them economies of scale that are not realized by other non-affiliated rural telephone companies.

12. Because eligibility for certain types of high-cost universal service support is determined at the study area level, we ask the Joint Board to consider whether multiple study areas within a state should be consolidated for universal service support calculation purposes, when those study areas have common ownership. A study area is a geographic segment of an incumbent local exchange carrier's

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<sup>27</sup>Currently, the National Exchange Carrier Association collects line count and cost data from incumbent local exchange carriers, while the Universal Service Administrative Company collects data from competitive eligible telecommunications carriers, as well as other data related to the Interstate Common Line Support mechanism for rate-of-return carriers. See 47 C.F.R. §§ 36.611, 36.612, 54.307, 54.903.

<sup>28</sup>See *supra* n.2; see also *RTF Order*, 16 FCC Rcd at 11311, para. 172 (anticipating further review of the definition of rural carrier).

<sup>29</sup>See *RTF Order*, 16 FCC Rcd at 11311, para. 172 ("[W]e observe that some of the data seem to show that some rural companies may be more similar to non-rural companies than to smaller rural companies."). We also note that several rural telephone companies that are subject to rate-of-return regulation in the interstate jurisdiction have proposed that the Commission adopt incentive regulation schemes that would be appropriate for some, but not all, rate-of-return carriers. *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order and Second Further Notice of Proposed Rulemaking, 19 FCC Rcd 4122, 4153-64, paras. 68-94 (2004). Most rate-of-return carriers meet the definition of "rural carrier." See Universal Service Administrative Company, *Federal Universal Service Support Mechanisms Fund Size: Projections for the Third Quarter 2004* (filed April 30, 2004). On October 30, 2003, Western Wireless filed a petition asking the Commission to begin a rulemaking proceeding to address whether the Commission's rules governing rate-of-return regulation should be eliminated for the purpose of federal universal service support and interstate access charges. *Elimination of Rate-of-Return Regulation of Incumbent Local Exchange Carriers; Federal-State Joint Board on Universal Service*, Petition for Rulemaking to Eliminate Rate-of-Return Regulation of Incumbent Local Exchange Carriers, CC Docket No. 96-45 (filed October 30, 2003).

telephone operations and generally corresponds to an incumbent local exchange carrier's entire service territory within a state.<sup>30</sup> For various reasons, however, an incumbent local exchange carrier may have more than one study area within a state.<sup>31</sup> The Joint Board should consider whether we should modify the definition of "study area" to limit a holding company to one study area per state. By operating in multiple study areas in a given state, certain carriers may receive more high-cost universal service support than they would if their study areas within the state were combined. The Joint Board should consider whether requiring consolidation of study areas would better reflect the appropriate economies of scale of the service provider.

13. Finally, we ask that the Joint Board consider whether, in the event we retain two distinct mechanisms for rural and non-rural carriers, we should retain or further modify section 54.305 of the Commission's rules, which provides that carriers that acquire exchanges receive support for those exchanges based on the exchanges' pre-transfer level of support. In adopting section 54.305, the Commission intended to discourage carriers from transferring exchanges merely to increase their share of high-cost support.<sup>32</sup> The Joint Board should consider the costs and benefits of retaining section 54.305 in its present form, and evaluate whether alternatives exist that would more effectively prevent carriers from acquiring exchanges in order to maximize the amount of universal service support that they receive. The Joint Board should also consider whether the safety valve mechanism contained in section 54.305 provides sufficient incentives for investment in acquired exchanges.

#### IV. ORDERING CLAUSES

14. Accordingly, IT IS ORDERED, pursuant to sections 1, 4(i) and (j), 214(e), 254, and 410 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 154(j), 214(e), 254, and 410, that this Order is adopted.

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<sup>30</sup>In addition to determining eligibility for high-cost universal service support, incumbent local exchange carriers perform jurisdictional separations at the study area level and generally tariff their rates at the study area level.

<sup>31</sup>The Commission froze all study area boundaries effective November 15, 1984, in order to prevent carriers from setting up high-cost exchanges within their existing service territory as separate study areas to maximize eligibility for high-cost universal service support, among other reasons. A carrier must apply to the Commission for a waiver of the study area boundary freeze, if it wishes to sell or purchase additional exchanges and the transaction requires the alteration of an existing study area boundary. In some cases, however, a holding company may have multiple study areas within a state if it had the multiple study areas before the freeze went into effect or if it acquired a new study area in whole and therefore did not need to change its boundaries.

<sup>32</sup>*Universal Service First Report and Order*, 12 FCC Rcd at 8942-43, para. 308.

15. IT IS FURTHER ADOPTED, pursuant to sections 1, 4(i) and (j), 214(e), 254, and 410 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 154(j), 214(e), 254, and 410, that the Federal-State Joint Board on Universal Service is requested to review the Commission's rules relating to high-cost universal service support for rural telephone companies and other related issues described herein and provide recommendations to the Commission.

FEDERAL COMMUNICATIONS COMMISSION

A handwritten signature in black ink, appearing to read "Marlene H. Dortch", is written over the printed name.

Marlene H. Dortch  
Secretary



**STATEMENT OF  
COMMISSIONER KEVIN J. MARTIN**

Today's decision requests the Federal-State Joint Board on Universal Service to review the Commission's rules relating to the high-cost universal service support mechanisms for rural carriers and to determine the appropriate rural mechanism to succeed the five-year plan adopted in the *Rural Task Force Order*. The Commission specifically asks the Joint Board to "consider whether the current forward-looking economic cost model, used in calculating high-cost support for non-rural telephone companies, is appropriate for some or all rural telephone companies, or if some other method for estimating forward-looking economic costs would be better suited for some or all rural telephone companies."<sup>1</sup> I am troubled by today's decision to revisit whether the Commission should adopt a universal service support mechanism for rural carriers based on hypothetical forward-looking economic costs.

In establishing a universal service support mechanism based on actual costs, the Commission recognized that the forward-looking economic cost model support mechanism adopted for non-rural companies may not be appropriate for rural companies. The Rural Task Force made clear that the one of the cornerstone concepts of their recommendation "was the decision to recommend the continued use of embedded cost methods rather than the Commission's forward-looking cost model for sizing universal service support for rural carriers."<sup>2</sup> I questioned the Commission's use of forward-looking costs as the basis for distributing universal service support for non-rural telephone companies and would have even greater concerns if such an approach would be used to distribute support to rural companies.<sup>3</sup> In my view, we could better achieve sufficient universal service support and comparability of rates if we base our universal service support system on actual rather than forward looking costs.

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<sup>1</sup>Order at, para. 9.

<sup>2</sup>Reply Comments of the Rural Task Force on the Rural Task Force Recommendation, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, FCC 01-08 (March 12, 2001).

<sup>3</sup>See, Statement of Commissioner Kevin J. Martin, *Federal-State Joint Board on Universal Service*, CC Docket 96-45, Joint Board Recommendation (adopted, Oct. 16, 2003).

**STATEMENT OF  
COMMISSIONER JONATHAN S. ADELSTEIN**

Through Section 254 of the Communications Act, Congress affirmed the broad principle that “consumers in all regions of the nation . . . should have access to telecommunications and information services that are reasonably comparable to those available in urban areas and at rates that are reasonably comparable to rates charged for similar services in urban areas.” With this declaration, Congress reaffirmed universal service as one of the bedrock principles of U.S. telecommunications policy.

Three years ago, the Commission adopted the *Rural Task Force Order* and reiterated that “one size does not fit all” when considering universal service support mechanisms that are appropriate for rural carriers.<sup>1</sup> Based on the enormous effort and valuable contributions of the Rural Task Force, the Commission adopted a modified embedded cost mechanism, concluding that this approach would preserve and advance universal service, consistent with the goals and principles of Section 254. As we move forward with this Referral Order, I am mindful of the Rural Task Force’s reservations about using the FCC’s Synthesis Model to calculate support for rural carriers.<sup>2</sup> So, it gives me great pause that this Referral Order asks the Joint Board to consider the use of forward-looking cost models to calculate support for rural telephone companies. The substantial questions documented by the Rural Task Force raise serious concerns about this approach.

Our choices in this proceeding will have a dramatic affect on the ability of communities and consumers in Rural America to thrive and grow with the rest of the country. History has shown that many rural consumers would be left behind if it weren’t for the support made available through our universal service policies. If we take seriously the notion that universal service encompasses an “evolving level” of services and if we are to make real our aspiration that broadband and advanced services be widely available throughout the country, we must ensure that universal service support remains “specific, predictable, and sufficient.”

I look forward to working closely with my colleagues on the Joint Board as we address these critical issues.

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<sup>1</sup>*Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, Report and Order in CC Docket No. 00-256, 16 FCC Rcd 11244, 11249, para. 4 (2001) (Rural Task Force Order).*

<sup>2</sup>*Federal-State Joint Board on Universal Service, Rural Task Force Recommendation to the Federal-State Joint Board on Universal Service, at 20 (rel. Sept. 29, 2000) (Rural Task Force Recommendation).*